LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF THE CORPORATE PLAN

2013-2017

SUMMARY OF THE OPERATING BUDGET

2013

SUMMARY OF THE CAPITAL BUDGET

2017

FEBRUARY 2013

Plan Summary

The strategic direction of the Laurentian Pilotage Authority (the Authority or the LPA) has been developed in accordance with the organization's mandate and the *Pilotage Act*, and includes the following components:

- Maintain financial self-sufficiency and create a cash reserve equal to approximately 10% of gross revenue;
- Maximize efficiency, quality and safety by being attentive to the needs of the marine community; and
- Comply with Government of Canada policies.

Maintaining financial self-sufficiency continues to be one of the Authority's key priorities. The Authority must have sufficient cash liquidities to be able to upgrade its assets and carry out its operations. To achieve this objective, the Authority has implemented an integrated risk management programs to identify, manage and control risks, including financial risks, faced by the Authority.

The economic downturn that characterized the second half of 2011 continued during the first half of 2012. Moreover, international economic indicators show signs of an economic downturn starting in the second half of 2011 due to the slow recovery in the United States (along with the risk of falling back into recession) and the precarious situation of Europe's banking sector (debt crises in Greece and Spain, in particular).

In terms of marine transportation, there was a decrease in the first half of 2012, compared with 2011, with the St. Lawrence Seaway reporting a drop in bulk cargo (grain). The market continues to be sensitive to the dimensions of container ships, a situation that puts the St. Lawrence Seaway at a competitive disadvantage in relation to a number of ports along the eastern US seaboard that also have rail links to the American Midwest.

The financial forecasts in this plan therefore reflect the Authority's priorities and current economic constraints.

Authority's Mandate

The mandate of the Laurentian Pilotage Authority is to

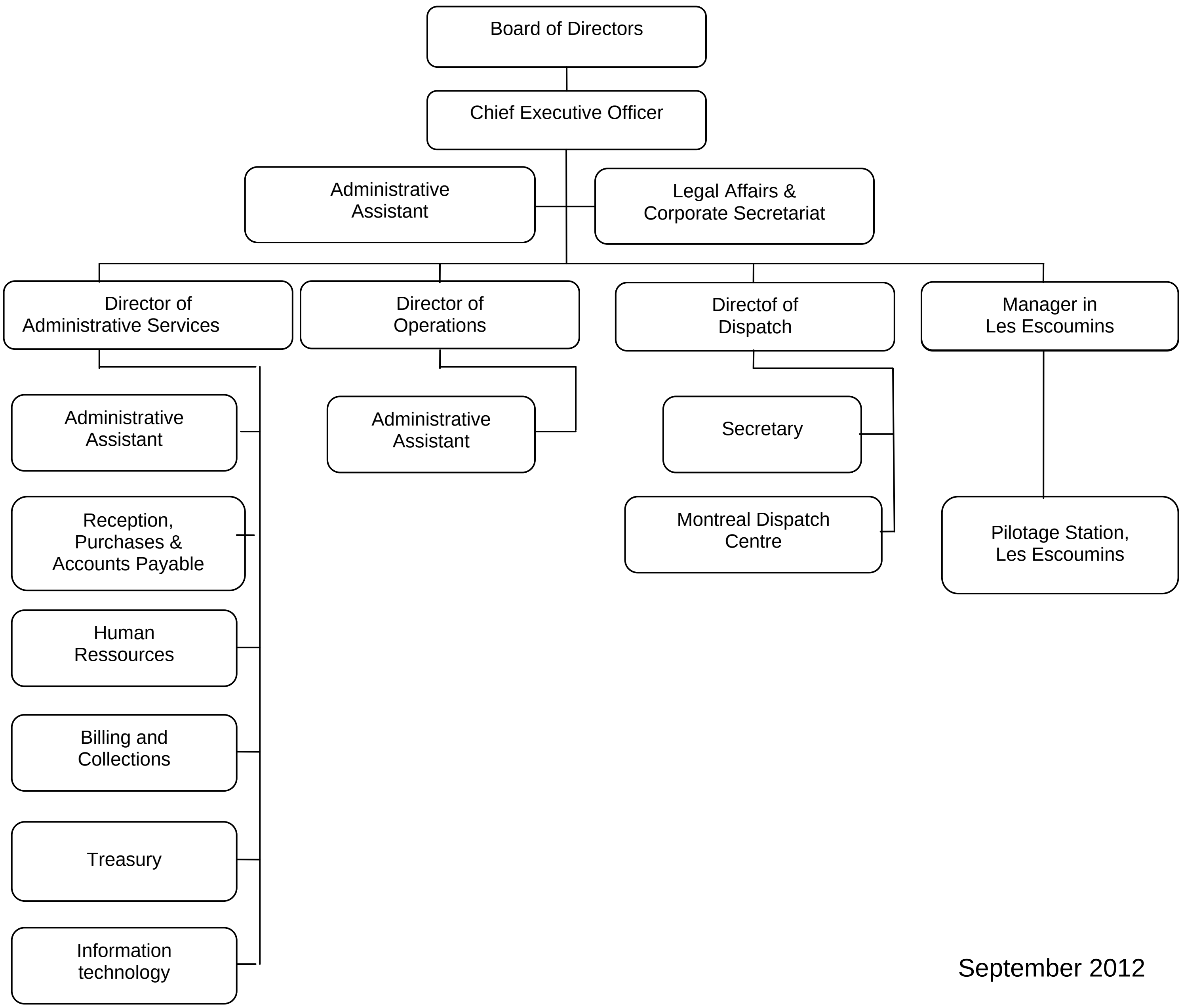
- establish, operate, maintain and administer, in the interest of navigation safety, an efficient pilotage service in Canadian waters within the areas served by the Laurentian Pilotage Authority; and

- set pilotage charges at a fair and reasonable level that reflects the Authority's need to generate revenue which, combined with revenue from other sources, is sufficient to permit the Authority to operate on a financially self-sufficient basis and create a cash reserve consisting of about 10% of its gross revenue.

Authority Profile

ORGANIZATION CHART

LAURENTIAN PILOTAGE AUTHORITY



September 2012

BACKGROUND

The Laurentian Pilotage Authority was established on February 1, 1972, under the *Pilotage Act* to operate an efficient pilotage service in the interest of navigational safety.

The Authority is a Crown corporation, as defined in the *Financial Administration Act*, but is not an agent of the Crown.

The Board of Directors comprises a chairperson and six other members, including two pilots, two shipping industry representatives and two members of the general public.

POWERS

To carry out its responsibilities, the Authority has adopted general regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, pertaining to the:

⇨ establishment of compulsory pilotage areas;

⇨ prescription of ships or classes of ships subject to compulsory pilotage;

⇨ prescription of classes of pilot licences and pilotage certificates that may be issued; and

⇨ prescription of pilotage tariffs to be paid to the Authority for pilotage services.

In addition, the Authority is empowered under the *Pilotage Act* to:

⇨ hire officers and employees, including licensed pilots and apprentice pilots, as required for operations;

⇨ contract with pilot corporations for the services of licensed pilots;

⇨ adopt bylaws concerning the management of its affairs;

⇨ purchase, lease or otherwise acquire land, buildings, pilot boats and other equipment and assets deemed necessary, and to sell any assets thus acquired; and

⇨ take out loans, if necessary, to cover the Authority's expenses.

DESCRIPTION OF OPERATIONS

The Authority operates, in the interest of safety, a marine pilotage service in all Canadian waters in and around the province of Quebec, north of the northern entrance to the St. Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

In accordance with its regulations, the Authority has established three districts subject to compulsory pilotage: District No. 1.1 for the Port of Montreal, District No. 1 for the navigable waters between Montreal and Quebec City, and District No. 2 for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. The pilotage districts established by the Authority cover a distance of 494 kilometres between Montreal and Les Escoumins, and another 130 kilometres along the Saguenay River (please refer to the illustration on page 44).

Pilotage services are provided for all ships subject to compulsory pilotage by staff pilots in Districts 1.1, 1 and 2. These pilots are represented by the Corporation of Mid St. Lawrence Pilots (Districts 1.1 and 1) and the Corporation of Lower St. Lawrence Pilots (District 2). The boarding of pilots in Les Escoumins is carried out by means of pilot boats belonging to the Authority; in the case of the other boarding stations located in Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal, pilot boarding is carried out using pilot boats belonging to private contractors. Pilots are assigned to ships by the Authority's dispatchers. All dispatch services for the Les Escoumins, Quebec City and Port of Montreal districts are provided by and managed from the headquarters in Montreal.

The Authority must co-ordinate its operations, activities and management with a number of organizations, including the St. Lawrence Seaway Management Corporation, which operates the St. Lambert Lock, the Canadian Coast Guard, which oversees a number of marine services such as navigational aids, dredging and icebreaking, the Marine Traffic Services Centre, various port authorities in the region and associations representing agents, owners and operators of Canadian and foreign ships.

CURRENT STRATEGIC POSITION ASSESSMENT AND ISSUES

Financial Performance

The Authority achieved all its objectives for 2011. The results for the 2011 fiscal year were positive and the Authority is forecasting a comprehensive income of $2.4 million for 2012.

Legislation

The legal context in which the Authority delivers its services has not changed significantly since the year before. The only significant change is the coming into effect of the Regulations amending the *General Pilotage Regulations*. New rules have been adopted for pilots' medical examinations, which now take place every two years and essentially cover the criteria set out in the *Marine Personnel Regulations*.

In relation with the *Public Servants Disclosure Protection Act* (PSDPA), the Authority's employees will be consulted for the purposes of drafting our organization's own Code of Conduct.

Environmental considerations

The industry's future development will be influenced by the new generation of large container ships with a cargo capacity of up to 12,600 TEU, the new enlarged Panama Canal scheduled to open in 2015, the navigation constraints concerning low-emission propulsion system and ballast water treatment systems to remove any invasive marine species.

Analysis of the external commercial environment

The Authority's operations are affected by various external factors over which it has no control, such as weather conditions, international conflicts, vigor of international trade, international financial institutions and global economies, state of public finances in industrialized countries, inflation, interest rates and the value of the Canadian dollar, work stoppages in intermodal transport operations and related areas, the federal cost recovery policy with regard to dredging, aids to navigation and icebreaking services, and St. Lawrence River water levels.

Although all of these external factors may have an impact on the volume of marine traffic and thus on the LPA's business performance, it is impossible for the LPA to calculate the financial impact that any one of these factors may have on its performance, or for the Authority to control the emergence of these factors.

Market analysis

There was a steady increase in Canada's Gross National Product (GNP) in the first six months of 2012. However, GNP growth forecasts for all of 2012 remain modest. The recovery in the United States is still weak while the financial crisis continues in Europe (Spain, Italy and Greece).

In terms of marine transportation, there were changes in several activity indicators during the first half of 2012, compared with 2011, including the following:

- The St. Lawrence Seaway reported a 15% decrease in bulk shipments (grain), and a 27% increase in activity associated with the steel industry (iron ore).

- The number of LPA assignments for the first six months of 2012 was down 7.4% from what it was in the same period in 2011.

- Traffic (in metric tons) of liquid bulk and containerized cargo at the Montreal Port Authority during the six-month period ending on June 30, 2012, was down 5.0% from 2011.

Grain market

The volume of grain shipments dropped fairly sharply in the second half of 2011 and the early part of 2012, mainly because of severe floods in the United States and in Canada's Prairie provinces in 2011. For the second half of 2012, the outlook seemed more positive.

Oil market

The construction of Ultramar's pipeline between Quebec City and Montreal is well under way and expected to be completed by the end of 2012. This project is expected to significantly reduce the number of unit trains in the Lévis-Montreal corridor.

Commercial considerations

The market continues to be sensitive to the dimensions of container ships which may benefit ports along the US eastern seaboard, such as New York City, Norfolk, Charleston and other ports.

Internal analysis

The Authority held its annual public meeting on May 30, 2012, with many representatives of the marine community in attendance.

The pilotage services contract with the Corporation of Lower St. Lawrence Pilots was renewed for a five-year period on March 7, 2012. The pilotage services contract with the Corporation of Mid St. Lawrence Pilots expired on June 30, 2012, and negotiations for renewal of the contract have begun.

The Authority intends to closely monitor its administrative expenses in 2012 including the termination of the accumulation of severance pay for non-unionized employees in the event of voluntary departures.

The Authority will continue to have an external accounting firm conduct its internal audit cycle in 2012. Moreover a Special Exam is expected to be initiated in the fall of 2012 by the Office of the Auditor General and be completed in 2013.

With respect to the Authority’s tariff settlement, a 2.35% increase is planned as of January 1, 2013, for each jurisdiction of the Laurentian Pilotage Authority. For the industry, this increase compares favourably with variations in the Consumer Price Index (CPI), at least for the 12-month period ending on June 30, 2012 (when the average monthly CPI for Quebec from July 1, 2011 to June 30, 2012, is compared with the average monthly CPI for Quebec from July 1, 2010 to June 30, 2011), when the increase was 2.78%. The following factors will be assessed to determine the tariff program increase starting in 2014:

- Future CPI variations in 2013.
- Final fee increases agreed to with the pilot corporations.
- The cost of new generations of electronic portable pilotage units (PPU’s) to be used by pilots aboard ships.
- Economic conditions in 2013.

Main Objectives, Methods, Action Strategies and Performance Indicators

The strategic direction of the Laurentian Pilotage Authority includes the following components:

- ❖ Maintaining financial self-sufficiency and creating a cash reserve equal to approximately 10% of gross revenue;
- ❖ Maximizing efficiency, quality and safety by being attentive to the needs of the marine community; and
- ❖ Complying with Government of Canada policies.

The main objectives that the Authority set for itself during its annual strategic planning exercise in order to carry out its operations in accordance with its strategic direction are shown in the tables below.

Objective	Means	Action Strategy	Performance Indicator	Timeline
Maintaining financial self-sufficiency	Keep expenditures within budget	Carry out monthly expenditure audits (management)	Monthly progress graph showing results in operations	Ongoing
	" "	Quarterly audit of revenue and expenses (Audit Committee)	Feedback from Committee members	Quarterly
	Monitor employee costs	Renew collective agreements with the Public Service Alliance of Canada (PSAC) and the Canadian Merchant Service Guild (CMSG) while complying with cost containment measures	New collective agreements	2013–2014
	Increase revenues by publishing fair and reasonable tariffs	Tariffs for 2013 approved; Preliminary analysis of tariff strategy for subsequent years	Build up cash liquidities amounting to 10% of revenues through the achievement of budgetary surpluses	Ongoing
	Optimize costs arising from ownership and operation of assets	Maintain and upgrade assets (Les Escoumins wharf) in accordance with financial self-sufficiency criteria	Achievement of necessary budget surpluses to enable the upgrading of assets	Ongoing
	Optimize the processing of pilotage fiches	Design and implement electronic pilotage fiches	Implementation team	2012–2013

Objective	Means	Action Strategy	Performance Indicator	Timeline
	Avoid bad debts	Implement new credit strategies	Bad debt expenses	2012–2013
Maximizing efficiency, quality and safety by being attentive to user needs	Maintain the level of communications	Hold regular meetings with users to ensure greater transparency in pilotage operations	Quarterly report to the Board of Directors	Ongoing
	Maintain a low incident rate	Establish a pilot evaluation system, provide pilot training and identify corrective measures	Keep the incident rate at less than 0.1%	Ongoing
	Maintain an adequate number of pilots	With the pilot corporations, estimate the level of marine traffic and plan pilots' retirements	Accuracy of forecasts and management of the service level	Ongoing
	Modernize capital assets	Review the replacement plan for major assets every year	Efficiency and safety of services is maintained	Ongoing
	Improve the efficiency and reliability of equipment, particularly pilot boats	Continue implementing the preventive maintenance program for facilities (Les Escoumins wharf) and equipment	Major breakdowns and unforeseen expenditures are kept to a minimum	Ongoing
		Build a breakwater wharf	Work carried out	2012

Objective	Means	Action Strategy	Performance Indicator	Timeline
		Construction of a new four-season pilot boat	Management of the project with the consulting architects and the contractor	2012
	Provide quality pilotage services	Maintain updated pilot training programs	Keep the accident rate at less than 1 per 1,000 assignments	Ongoing
			Maintain the high success rate for the certificate exam	Ongoing
	Provide safe, quality pilot boarding services	Update the pilot boat operating manual	Operations handbook for pilot boats	Ongoing
Complying with Government of Canada policies	Set up a system for evaluating Board members	Work of the Governance and Human Resources Committee	Submission of an evaluation system	2012
	Take environmental issues into consideration in operations and relevant decisions	Analyse environmental issues in relevant files	Development and implementation of procedures	Ongoing
	Develop a policy and plan to manage risks, including financial risks	Identify various risks and incorporate the integrated risk management model into management practices	Updating of major risks, including risk quantification (if possible)	Ongoing

Objective	Means	Action Strategy	Performance Indicator	Timeline
			Internal audit projects carried out for 2012 and subsequent years	2012–2014
			Implementation of the internal audit of the occupational health and safety program	2012–2013
	Comply with cost containment measures introduced by the Treasury Board	Monitor actual expenses in relation to budgets for 2013 and subsequent years	Dispatching and administrative expenses	2012 and subsequent fiscal years
	Update LPA regulations	Continue carrying out internal reviews of LPA regulations	Publication of new LPA regulations	2012–2013

Financial Statements and Key Planning Assumptions

ACTUAL 2011, FORECAST 2012 AND 2013–2017 BUDGET PERIOD

STATEMENT OF COMPREHENSIVE INCOME
($000s)

	ACTUAL	FORECAST	PLAN				
	2011	2012	2013	2014	2015	2016	2017
ASSIGNMENTS	22,474	22,474	22,474	22,586	22,767	22,881	22,995
REVENUES							
Pilotage charges	77,224	80,974	82,750	85,321	88,085	90,687	93,380
Interest and other revenues	175	74	574	74	75	75	75
	77,399	81,048	83,324	85,395	88,160	90,762	93,455
DIRECT EXPENSES							
Pilot fees, salaries and benefits	59,448	65,256	67,961	70,080	72,304	74,212	76,531
Pilot boat operating costs	8,113	8,592	9,138	9,486	9,734	9,978	10,242
	67,561	73,848	77,099	79,566	82,038	84,190	86,773
GROSS PROFIT	9,838	7,200	6,225	5,829	6,122	6,572	6,682
ADMINISTRATIVE AND OPERATING EXPENSES							
Administration	2,637	3,101	2,875	2,907	3,031	2,984	3,063
Dispatch Centre	1,832	1,790	2,224	2,234	2,294	2,338	2,422
	4,469	4,891	5,099	5,141	5,325	5,322	5,485
COMPREHENSIVE INCOME	5,369	2,309	1,126	688	797	1,250	1,197

STATEMENT OF FINANCIAL POSITION
($000s)

	ACTUAL	FORECAST	PLAN				
	2011	2012	2013	2014	2015	2016	2017
ASSETS							
Current							
Cash	11,345	6,049	4,898	6,509	8,346	10,610	12,589
Accounts receivables	9,179	9,569	9,774	10,009	10,266	10,505	10,780
	20,524	15,618	14,672	16,518	18,612	21,115	23,369
Non-current	7,851	16,881	16,461	15,850	15,143	14,415	13,710
Less accumulated depreciation	183	970	757	544	331	118	105
Total assets	28,558	33,469	31,890	32,912	34,086	35,648	37,184
LIABILITIES							
Current							
Accounts payable	10,416	13,227	10,676	11,010	11,392	11,709	12,053
Non-current							
Employee future benefits	518	309	155	155	150	145	140
Total liabilities	10,934	13,536	10,831	11,165	11,542	11,854	12,193
EQUITY OF CANADA							
Retained earnings	17,624	19,933	21,059	21,747	22,544	23,794	24,991
	17,624	19,933	21,059	21,747	22,544	23,794	24,991
Total liabilities and equity of Canada	28,558	33,469	31,890	32,912	34,086	35,648	37,184
Working capital at year end	10,108	2,391	3,996	5,508	7,220	9,406	11,316

STATEMENT OF CHANGES IN EQUITY OF CANADA
($000s)

	ACTUAL	FORECAST	PLAN				
	2011	2012	2013	2014	2015	2016	2017
Retained earnings, beginning of the year	12,255	17,624	19,933	21,059	21,747	22,544	23,794
Comprehensive income for the year	5,369	2,309	1,126	688	797	1 250	1,197
Retained earnings, end of the year	17,624	19,933	21,059	21,747	22,544	23,794	24,991

STATEMENT OF CASH FLOWS
($000s)

	ACTUAL	FORECAST	PLAN				
	2011	2012	2013	2014	2015	2016	2017
OPERATING ACTIVITIES							
Comprehensive income for the year	5,369	2,309	1,126	688	797	1,250	1,197
Non-cash items:							
Amortization	226	230	908	949	960	951	758
Changes in long-term post-employment benefits and gain on disposal of capital assets	86	(229)	(654)	--	(5)	(5)	(5)
Decrease (increase) in receivables	(782)	(390)	(205)	(235)	(257)	(239)	(275)
Increase (decrease) in accounts payable	364	2,811	(2,551)	334	382	317	344
Cash flows from operating activities	5,263	4,731	(1,376)	1,736	1 877	2,274	2,019
INVESTING ACTIVITIES							
Additions to fixed assets							
Disposal of property and equipment	(3,882)	(10,027)	(275)	(125)	(40)	(10)	(40)
Disposal of property and equipment	--	--	500	--	--	--	--
	(3,882)	(10,027)	225	(125)	(40)	(10)	(40)
CASH							
Change for the year	1,381	(5,296)	(1,151)	1,611	1,837	2,264	1,979
Balance, beginning of year	9,964	11,345	6,049	4,898	6,509	8,346	10,610
Balance, end of year	11,345	6,049	4,898	6,509	8,346	10,610	12,589

SENSITIVITY ANALYSIS

Revenue collected from pilotage charges and the cost of pilotage services are directly related to the number of assignments, the number and dimensions of ships, hours of pilotage time and the draughts of ships. The Authority is planning tariff increases of between 2.35% and 2.50% for the years from 2013 to 2017 in accordance with the LPA's financial obligations and the objective of maintaining financial self-sufficiency.

Revenue from and expenses for pilot boats under contract are directly related to the number of pilot boarding services provided for ships; however, dispatch centre and administrative expenses and costs are relatively fixed and do not vary according to the volume of services provided.

Revenue from pilot boats operated by the LPA in Les Escoumins is directly linked to projected expenditures at the Les Escoumins station, plus 4.80%. Tariffs charged by the LPA for its pilot boats were revised downward on February 6, 2012, to reflect the updated cost structure at the Les Escoumins station.

The drafting of budget estimates (2013 to 2017) is based on the following key assumptions: estimated Consumer Price Indices, the estimated volume of marine traffic, the contractual remuneration of pilots and the approval of new tariff increases for future years.

Any variation in one or more of these assumptions will result in a favourable or unfavourable change in the Authority's financial position. A 1% variation in the tariff represents about $680,000 in revenue, whereas a 1% variation in the fees of pilots under contract represents a variation of about $600,000. This high percentage of variable costs gives the LPA substantial financial leeway.

Pilots' fees account for the majority of LPA expenses and are the direct result of agreements negotiated by the two pilot corporations and the LPA.

Execution of the plan depends on the correctness of assumptions made during its preparation. Should the Canadian Transportation Agency not grant the requested tariffs, the Authority may be unable to meet its contractual commitments, and thus an interruption of service may result.

2013 CAPITAL BUDGET

Acquisition of Capital Assets and Capital Budget

($000s)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2011	2012	2012	2013	2014	2015	2016	2017
Wharf and road	3,069	3,500	4,900	0	0	0	0	0
Pilot boat	804	3,000	4,200	0	0	0	0	0
Communication equipment	0	0	0	0	0	0	0	0
Computer equipment and software	4	210	50	175	125	40	10	40
Other capital items	5	0	17	0	0	0	0	0
Waiting-room & boarding station	0	127	60	100	0	0	0	0
	3,882	6,837	9,277	275	125	40	10	40